

# INTER-OFFICE MEMORANDUM

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## Office of Accounts and Control

**TO:** Chief Financial Officers  
State Departments and Agencies

**DATE:** February 5, 2002

**FROM:** Lawrence C. Franklin, Jr., State Controller

**SUBJECT: INTERNAL CONTROLS FOR REPORTING AND PROCESSING OF  
EMPLOYEE PAYROLLS**

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The following concerns were raised as a result of an audit of the state payroll system by the Office of the Auditor General. The concerns relate to internal controls for the reporting and processing of employee payrolls.

Internal controls are techniques used by management of an organization to achieve its objectives and to meet its responsibilities. They are an inextricable part of how management conducts its business.

The auditors noted several instances where internal controls over the reporting and processing of employee payrolls can be improved. The following recommendations shall be implemented in all state department and agencies.

### **Segregation of Duties**

Each of the following functions shall be performed by different employees within an agency:

- Preparation of personnel action (CS-3) forms.
- Entering exception hours into the state time and attendance reporting system.
- Distributing payroll checks to employees.

Segregation of these duties is a basic internal control technique that helps prevent misappropriation of payroll (in the absence of collusion). Some agencies are so small that it might not be feasible to segregate all, or any, of these duties. If not, management of these agencies should develop alternate internal controls.

### **Access Controls**

Each user of the on-line payroll system is assigned a log-in password and ID. The purpose of this access control is to protect the payroll system against unauthorized use. The following control techniques shall be implemented at each agency payroll office:

- Sharing of the same password and ID by different employees shall not be allowed, and
- Users shall log off the payroll system when leaving their computers unattended for long periods of time (coffee breaks, lunch periods, meetings, etc.)

The above control techniques prevent unauthorized and inaccurate data to be entered into the payroll system. They provide a proper audit trail to be maintained because the data entered can be assigned to one user.

### **Authorized Signatures**

When an agency enters payroll data into the on-line payroll system, the agency is required to complete the sub(stitute) A-80 Automated Payroll Attendance Certificates. An employee who has been approved by the Office of Accounts and Control to provide an authorized signature must complete and sign this certificate, which contains a series of certifications related to the accuracy and completeness of the payroll data that has been entered into the system.

- Only employees who have been designated as authorized agents (signers) of payroll attendance reports and certificates shall sign the A-80 forms.

This memorandum will also be posted to the Chief Payroll Officers web page at my web site for their edification.

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CFO:02-31